

MONROE COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Monroe County School District
Tompkinsville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Monroe County School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of Monroe County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report date September 30, 2007, on our consideration of the Monroe County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 35 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Monroe County School District's basic financial statements. Combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Monroe County School District. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
Louisville, Kentucky
September 30, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

**MONROE COUNTY BOARD OF EDUCATION
TOMPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

As management of the Monroe County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

MISSION STATEMENT:

With the support of parents, school, and community, the mission of the Monroe County School District is to provide a comprehensive learning environment for children to prepare for lifelong learning and achievement in a changing society and a complex world.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the Government Funds was \$1.6 million and \$ 14,936 in the Proprietary Funds.
- A concerted effort was focused on purchasing in the areas of supplies, food, and travel resulting in several economies due to changed management strategies. The District utilizes bidding through the GRREC (Green River Regional Education Cooperative), KEDC (Kentucky Educational Development Corporation, and state and federal bidding opportunities for the purchase of supplies and food.
- State law requires school districts to update the district facility plan every four years. This document guides the allocation of School Facilities Construction Commission dollars. The Monroe County Board of Education revised its facility plan in the Spring of 2007. Our current bonding capacity is 3 million dollars. The district anticipates a construction project in Fiscal Year 2008.
- The board initiated one (1) construction projects in fiscal year 2007. This was the renovation of the Darrell Carter Football Stadium to make the stadium handicap accessible and construct new restrooms. Local funds were used for this project.
- A certified task force committee was established in the Spring of 2007 to review the certified salaries of the adjoining counties in an effort to determine the cost of compensating our certified staff commensurate with surrounding counties. The board remains committed to increasing certified and classified salaries to 100% of the regional average salary for certified and classified personnel. For the 2007 fiscal year certified and classified personnel were given a 2% pay raise.
- The General Fund had \$14.3 million in revenue, which primarily consisted of the state program SEEK (Support Educational Excellence in Kentucky) which is the state formula for funding schools, property, local occupational license taxes, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$13.9 million in General Fund expenditures.
- The Board continues to maintain a schedule but fleet rotation. The board approved the purchase of one (1) new bus through a KISTA bond issue. The total acquisition cost for this bus was \$83,785.
- There was one interfund transfer from the General Fund to the KETS grant for the technology offers of assistance in the amount of \$20,000. The balance of the transfers related to debt services.

MONROE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED
YEAR ENDED JUNE 30, 2007

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A fund is grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. This is state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 - 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 34 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$ 6.6 million as of June 30, 2007.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2007

	2007			2006		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Current Assets	\$ 2,760,550	\$ 123,224	\$ 2,883,774	\$ 7,221,240	\$ 210,285	\$ 7,431,525
Noncurrent Assets	<u>28,053,671</u>	<u>1,401,013</u>	<u>29,454,684</u>	<u>24,040,259</u>	<u>1,284,069</u>	<u>25,324,428</u>
Total Assets	\$30,814,221	\$ 1,524,237	\$ 32,338,458	\$ 31,261,599	\$1,494,354	\$ 32,755,953
Current Liabilities	\$ 2,421,959	\$ -	\$ 2,421,959	\$ 2,502,920	\$ 403	\$ 2,503,323
Noncurrent Liabilities	<u>23,362,040</u>	<u>-</u>	<u>23,362,040</u>	<u>24,652,970</u>	<u>-</u>	<u>24,652,970</u>
Total Liabilities	\$25,783,999	\$ -	\$ 25,783,999	\$ 27,155,890	\$ 403	\$ 27,156,293
Net Assets						
Investment in capital assets (net of debt)	\$ 3,627,873	\$ 1,401,013	\$ 5,028,886	\$ (1,650,237)	\$1,284,069	\$ (336,168)
Restricted	543,141	-	543,141	5,042,289	-	5,042,289
Unreserved fund balance	<u>859,208</u>	<u>123,224</u>	<u>982,432</u>	<u>713,657</u>	<u>209,882</u>	<u>923,539</u>
Total Net Assets	<u>\$ 5,030,222</u>	<u>\$ 1,524,237</u>	<u>\$ 6,554,459</u>	<u>\$ 4,105,709</u>	<u>\$1,493,951</u>	<u>\$ 5,599,660</u>

Comments on Budget Comparisons

- The General Fund's total revenues were \$14.3 million, higher than budgeted by \$3.7 million. The expenditures of the General Fund amounted to \$13.9 million or \$2.4 million higher than budgeted. After considering transfers and adjustments, the fund balance increased by \$130,503.
- The Special Revenue Fund's total revenue was \$ 3.5 million, higher than budgeted by \$419,939. Expenditures totaled \$3.5 million, higher than the budget by \$419,939.

**MONROE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED
YEAR ENDED JUNE 30, 2007**

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2007 and June 30, 2006

	<u>2007</u>			<u>2006</u>		
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Program Revenues:						
Charges for services	\$ -	\$ 523,869	\$ 523,869	\$ -	\$ 548,022	\$ 548,022
Operating grants	3,545,519	1,051,416	4,596,935	3,336,790	1,049,890	4,386,680
Capital grants	711,441	-	711,441	714,471	-	714,471
General revenues:						
Taxes	2,589,363	-	2,589,363	2,337,885	-	2,337,885
State aid formula grant	12,858,655	-	12,858,655	12,702,359	-	12,702,359
Investment earnings	335,361	2,439	337,800	139,711	3,011	142,722
Transfers	53,597	(53,597)	-	(401,239)	401,239	-
All Other	47,430	-	47,430	141,966	(2,561)	139,405
Total Revenues	\$ 20,141,366	\$ 1,524,127	\$ 21,665,493	\$ 18,971,943	\$ 1,999,601	\$ 20,971,544
Program Expenses:						
Instruction	\$ 11,419,624	-	\$ 11,419,624	\$ 14,810,463	\$ -	\$ 14,810,463
Student support	659,200	-	659,200	578,798	-	578,798
Instruction staff	1,138,078	-	1,138,078	983,362	-	983,362
District administration	431,231	-	431,231	500,865	-	500,865
School administration	1,169,710	-	1,169,710	1,109,866	-	1,109,866
Business	261,802	-	261,802	258,601	-	258,601
Plant operations	1,843,072	-	1,843,072	1,871,861	-	1,871,861
Student transportation	1,082,407	-	1,082,407	770,475	-	770,475
Community support	255,694	-	255,694	239,614	-	239,614
Interest on long-term debt	956,035	-	956,035	1,020,439	-	1,020,439
Food service	-	1,321,717	1,321,717	-	1,254,481	1,254,481
Day care	-	172,124	172,124	-	214,508	214,508
Total Expenses	\$ 19,216,853	\$ 1,493,841	\$ 20,710,694	\$ 22,144,344	\$ 1,468,989	\$ 23,613,333
Net Increase in Net Assets	\$ 924,513	\$ 30,286	\$ 954,799	\$ (3,172,401)	\$ 530,612	\$ (2,641,789)

Governmental Activities

Instruction comprises 59% of governmental program expenses in 2007 versus 67% in 2006. Support services expenses make up 36% of government expenses compared with 28% for the prior year.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

	<u>2007</u>		<u>2006</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 11,419,624	\$ 8,951,456	\$ 14,810,463	\$ 12,411,706
Support services	6,841,194	5,763,843	6,313,442	5,375,409
Interest on long-term debt	956,035	244,594	1,020,439	305,968
Total Expenses	\$ 19,216,853	\$ 14,959,893	\$ 22,144,344	\$ 18,093,083

MONROE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED
YEAR ENDED JUNE 30, 2007

Business-Type Activities

The business-type activities include the food service and day care operations. These programs had total revenues of \$1,524,127 and expenses of \$1,493,841 for fiscal year 2007. Of the revenues, \$523,869 was charges for services, \$1,051,416 was from State and Federal grants, \$2,439 was from investment earnings. Business activities receive no support from tax revenues.

Capital Assets

At the end of fiscal year 2007 the School District had \$29.5 million invested in land, buildings, equipment, and construction in progress. The following table shows fiscal year 2007 balances:

Capital Assets at June 30, 2007
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 508,690	\$ 508,690	\$ -	\$ -	\$ 508,690	\$ 508,690
Land Improvements	75,107	86,978	-	-	75,107	86,978
Building & Improvements	19,248,114	19,796,160	1,057,430	1,083,397	20,305,544	20,879,557
Technology	506,447	352,321	8,806	5,320	515,253	357,641
Vehicles	493,637	532,227	-	-	493,637	532,227
Equipment	204,795	140,280	334,777	195,352	539,572	335,632
Construction in Progress	<u>7,016,881</u>	<u>2,623,703</u>	<u>-</u>	<u>-</u>	<u>7,016,881</u>	<u>2,623,703</u>
Total Governmental Activities	<u>\$ 28,053,671</u>	<u>\$ 24,040,359</u>	<u>\$ 1,401,013</u>	<u>\$ 1,284,069</u>	<u>\$ 29,454,684</u>	<u>\$ 25,324,428</u>

The table below shows the changes in capital assets for the fiscal years 2007 and 2006.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Beginning Balance	\$ 24,040,359	\$ 22,576,022	\$ 1,284,069	\$ 762,975	\$ 25,324,428	\$ 23,338,997
Additions	4,891,699	5,714,804	172,843	566,116	5,064,542	6,280,920
Retirements	(6,088)	(3,548,611)	-	(2,561)	(6,088)	(3,551,172)
Depreciation	<u>(872,299)</u>	<u>(701,856)</u>	<u>(55,899)</u>	<u>(42,461)</u>	<u>(928,198)</u>	<u>(744,317)</u>
Ending Balance	<u>\$ 28,053,671</u>	<u>\$ 24,040,359</u>	<u>\$ 1,401,013</u>	<u>\$ 1,284,069</u>	<u>\$ 29,454,684</u>	<u>\$ 25,324,428</u>

MONROE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED
YEAR ENDED JUNE 30, 2007

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 through June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$479,000 in contingency.

The beginning General Fund cash balance for beginning the 2007 fiscal year was \$1.5 million. Significant Board action that impacts the finances included a 2% pay raise for all certified and classified employees and general fund matching dollars for other grants. The district currently participates in approximately 35 state and federal grants. These grants are funded on a reimbursement basis which means that the district must pay for the grant expenses upfront and request reimbursement from the state. As of June 30, 2007, the district was due reimbursement in the amount of \$670,000. Applying for grant reimbursements and monitoring the grants is something the district must do constantly. While waiting for grants to be reimbursed, the district must maintain a significant cash balance in order to pay these expenses in advance.

Local property tax revenue makes up approximately 14% of the general fund revenue. Property taxes are levied annually usually in October on the assessed value for all real and personal property in the district as of January 1st of the prior year. However, this revenue is not received until the months of November – February which means that the general fund's beginning balance is used to pay much of the first few months of expenditures. It is very important to have a substantial beginning balance to start the beginning of each year. The district had a beginning general fund balance of \$1.5 million or 14.5% of the general fund revenue budget.

Questions regarding this report should be directed to the Superintendent, George Wilson, or to Kathy Haile, Director of Financial Services, (270) 487-5456 or by mail at P.O. Box 10, Tompkinsville, Kentucky 42167.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

MONROE COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS

June 30, 2007

	Government Activities	Business Type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,633,392	\$ 14,936	\$ 1,648,328
Inventory		29,587	29,587
Accounts Receivable			
Taxes-current	82,068		82,068
Intergovernmental- Indirect Federal	670,000	78,701	748,701
Bond issue costs	375,090		375,090
Total Current Assets	<u>\$ 2,760,550</u>	<u>\$ 123,224</u>	<u>\$ 2,883,774</u>
Noncurrent Assets			
Capital assets	\$ 39,019,870	\$ 1,983,437	\$ 41,003,307
Less: accumulated depreciation	(10,966,199)	(582,424)	(11,548,623)
Total Noncurrent Assets	<u>\$ 28,053,671</u>	<u>\$ 1,401,013</u>	<u>\$ 29,454,684</u>
Total Assets	<u>\$ 30,814,221</u>	<u>\$ 1,524,237</u>	<u>\$ 32,338,458</u>
Liabilities			
Current Liabilities			
Accounts Payable	\$ 43,497	\$ -	\$ 43,497
Deferred revenue	61,777		61,777
Current portion of bond obligations	1,210,000		1,210,000
Current portion of capital lease obligations	107,786		107,786
Current portion of accrued sick leave	64,257	-	64,257
Interest payable	934,642		934,642
Total Current Liabilities	<u>\$ 2,421,959</u>	<u>\$ -</u>	<u>\$ 2,421,959</u>
Noncurrent Liabilities			
Noncurrent portion of bond obligations	\$ 21,970,000	\$ -	\$ 21,970,000
Deferred Gain on Qzab Bonds	599,184		599,184
Noncurrent portion of capital lease obligations	538,828		538,828
Noncurrent portion of accrued sick leave	254,028	-	254,028
Total Noncurrent Liabilities	<u>\$ 23,362,040</u>	<u>\$ -</u>	<u>\$ 23,362,040</u>
Total Liabilities	<u>\$ 25,783,999</u>	<u>\$ -</u>	<u>\$ 25,783,999</u>
Net Assets			
Invested in capital assets, Net of related debt	\$ 3,627,873	\$ 1,401,013	\$ 5,028,886
Restricted for:			
Capital projects	569,497	-	569,497
Unrestricted	832,852	123,224	956,076
Total Net Assets	<u>\$ 5,030,222</u>	<u>\$ 1,524,237</u>	<u>\$ 6,554,459</u>

MONROE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS

Governmental Activities:

	Expenses	Charges for Services	Program Revenues	Capital Grants & Contributions	Net (Expense) Revenue and Changes in Net Assets		
			Operating Grants & Contributions		Governmental Activities	Business-Type Activities	Total
Instruction	\$ 11,419,624	\$ -	\$ 2,468,168	\$ -	\$ (8,951,456)	\$ -	\$ (8,951,456)
Support services:							
Student	659,200		162,404		(496,796)		(496,796)
Instruction staff	1,138,078		630,603		(507,475)		(507,475)
District administrative	431,231		-		(431,231)		(431,231)
School administrative	1,169,710		-		(1,169,710)		(1,169,710)
Business	261,802		-		(261,802)		(261,802)
Plant operation and maintenance	1,843,072		-		(1,843,072)		(1,843,072)
Student transportation	1,082,407		45,432		(1,036,955)		(1,036,955)
Community service activities	255,694		238,892		(16,802)		(16,802)
Interest on long-term debt	956,035			711,441	(244,594)		(244,594)
Total governmental activities	\$ 19,216,853	\$ -	\$ 3,545,519	\$ 711,441	\$ (14,959,893)	\$ -	\$ (14,959,893)
Business-Type Activities:							
Food service	\$ 1,321,717	\$ 411,850	\$ 1,011,650	\$ -	\$ -	\$ 101,783	\$ 101,783
Day Care	172,124	112,019	39,766		-	(20,339)	(20,339)
Total business-type activities	\$ 1,493,841	\$ 523,869	\$ 1,051,416	\$ -	\$ -	\$ 81,444	\$ 81,444
Total Primary Government	\$ 20,710,694	\$ 523,869	\$ 4,596,935	\$ 711,441	\$ (14,959,893)	\$ 81,444	\$ (14,878,449)

GENERAL REVENUES:

From local sources:

Taxes:							
Property taxes	\$ 1,438,107	\$ -	\$ -	\$ -	\$ 1,438,107		
Motor vehicles taxes	336,030				336,030		
Utilities taxes	748,936				748,936		
Other local revenue	66,290				66,290		
Investment earnings	335,361				335,361	2,439	
State and formula grants	12,858,655				12,858,655		
Transfers	53,597				53,597	(53,597)	
Gain on Ozab Bonds	47,430				47,430		
Total General Revenues	\$ 15,884,406	\$ -	\$ -	\$ -	\$ 15,884,406	\$ (51,158)	\$ 15,833,248
Change in net assets	\$ 924,513				\$ 924,513	\$ 30,286	\$ 954,799
Net assets- beginning					4,105,709	1,493,951	5,599,660
Net assets- ending	\$ 5,030,222	\$ -	\$ -	\$ -	\$ 5,030,222	\$ 1,524,237	\$ 6,554,459

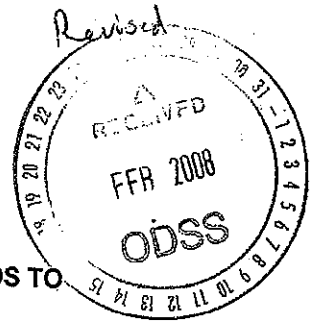
FUND FINANCIAL STATEMENTS

MONROE COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2007

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENT FUNDS	TOTAL GOVERNMENT FUNDS
Assets					
Cash and cash equivalents	\$ 1,672,118	\$ (608,223)	\$ 543,141	\$ 26,356	\$ 1,633,392
Accounts Receivable					-
Taxes-current	82,068				82,068
Taxes-delinquent	-				-
Intergovernmental- Indirect Federal		670,000			670,000
Total assets	<u>\$ 1,754,186</u>	<u>\$ 61,777</u>	<u>\$ 543,141</u>	<u>\$ 26,356</u>	<u>\$ 2,385,460</u>
Liabilities and Fund Balances:					
Liabilities					
Accounts Payable	\$ 43,497	\$ -		\$ -	\$ 43,497
Deferred revenue		61,777			61,777
Total liabilities	<u>\$ 43,497</u>	<u>\$ 61,777</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,274</u>
Fund Balances					
Reserved:					
SFCC Escrow	\$ -	\$ -	\$ -	\$ 26,356	\$ 26,356
Construction			543,141		543,141
Unreserved:					
Undesignated, reported in:					
General fund	\$ 1,710,689	\$ -	\$ -	\$ -	\$ 1,710,689
Total fund balances	<u>\$ 1,710,689</u>	<u>\$ -</u>	<u>\$ 543,141</u>	<u>\$ 26,356</u>	<u>\$ 2,280,186</u>
Total liabilities and fund balances	<u>\$ 1,754,186</u>	<u>\$ 61,777</u>	<u>\$ 543,141</u>	<u>\$ 26,356</u>	<u>\$ 2,385,460</u>

MONROE COUNTY SCHOOL DISTRICT



RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS

June 30, 2007

Total fund balance per fund financial statement

\$ 2,280,186

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets are not reported in this fund financial statement because
they are not current financial resources, but they are reported in the
statement of net assets.

28,053,671

Certain liabilities (such as bonds payable, the long-term portion of
accrued sick leave, and accrued interest) are not reported in this
fund financial statement because they are not due and payable,
but they are presented in the statement of net assets.

(25,303,635)

Net assets for governmental activities

\$ 5,030,222

MONROE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	GENERAL FUND	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
From local sources:					
Taxes:					
Property	\$ 951,985	\$ -	\$ -	\$ 486,122	\$ 1,438,107
Motor vehicle	336,030				336,030
Utilities	748,936				748,936
Earnings on investments	267,786	93	48,792	18,690	335,361
Other local revenues	39,869	23,171	3,250		66,290
Intergovernmental - state	11,873,638	1,348,616		1,700,141	14,922,395
Intergovernmental - indirect federal		2,147,652			2,147,652
Intergovernmental - direct federal	39,581	5,987			45,568
TOTAL REVENUES	\$ 14,257,825	\$ 3,525,519	\$ 52,042	\$ 2,204,953	\$ 20,040,339
EXPENDITURES:					
Current:					
Instruction	\$ 8,321,343	\$ 2,468,168	\$ -	\$ -	\$ 10,789,511
Support Services:					
Student	491,616	162,404			654,020
Instructional staff	502,913	530,603			1,133,516
District administration	427,009	-			427,009
School administration	1,159,386				1,159,386
Business	253,948	-			253,948
Plant operations and maintenance	1,819,697				1,819,697
Student transportation	916,095	45,452			961,547
Community service activities	15,985	238,892			254,877
Facilities acquisition and construction			4,562,121	184,890	4,747,011
Debt service:					
Principal				1,280,411	1,280,411
Interest				999,049	999,049
TOTAL EXPENDITURES	\$ 13,907,992	\$ 3,545,519	\$ 4,562,121	\$ 2,464,350	\$ 24,479,982
Excess (deficit) of revenues over expenditures	\$ 349,833	\$ (20,000)	\$ (4,510,079)	\$ (259,397)	\$ (4,439,643)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	\$ 53,005	\$ 20,000	\$ 73,936	\$ 1,549,329	\$ 1,706,270
Operating transfers out	(282,335)		(63,005)	(1,307,333)	(1,652,673)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (219,330)	\$ 20,000	\$ 10,931	\$ 241,996	\$ 53,597
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	\$ 130,503	\$ -	\$ (4,499,148)	\$ (17,401)	\$ (4,386,046)
FUND BALANCES, July 1, 2006	1,580,186	-	5,042,289	43,757	6,666,232
FUND BALANCES, June 30, 2007	\$ 1,710,689	\$ -	\$ 543,141	\$ 26,356	\$ 2,280,186

MONROE COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2007

Net change in total fund balances per fund financial statements	\$ (4,386,046)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation expense for the year.	4,182,255
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	1,280,411
Bond Interest Payments	43,014
Sick Leave Payments	(10,565)
Bond Issuance Cost and Discount	(21,393)
All Other	<u>(163,163)</u>
Change in net assets of governmental activities	<u>\$ 924,513</u>

MONROE COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2007

	FOOD SERVICE	DAY CARE OPERATIONS	TOTAL
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 14,936	\$ -	\$ 14,936
Inventory	29,587	-	29,587
Accounts receivable			
Intergovernmental- Indirect federal	78,701		78,701
Total current assets	<u>\$ 123,224</u>	<u>\$ -</u>	<u>\$ 123,224</u>
Noncurrent Assets			
Capital assets	\$ 1,983,437	\$ -	\$ 1,983,437
Less: accumulated depreciation	(582,424)	-	(582,424)
Total noncurrent assets	<u>\$ 1,401,013</u>	<u>\$ -</u>	<u>\$ 1,401,013</u>
Total Assets	<u>\$ 1,524,237</u>	<u>\$ -</u>	<u>\$ 1,524,237</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Total current liabilities	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 1,401,013	\$ -	\$ 1,401,013
Unrestricted	123,224	-	123,224
Total Net Assets	<u>\$ 1,524,237</u>	<u>\$ -</u>	<u>\$ 1,524,237</u>

MONROE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>FOOD SERVICE</u>	<u>DAY CARE OPERATIONS</u>	<u>TOTAL</u>
OPERATING REVENUES:			
Lunchroom sales	\$ 402,796	\$ -	\$ 402,796
Other operating revenues	9,054	112,019	121,073
TOTAL OPERATING REVENUES	<u>\$ 411,850</u>	<u>\$ 112,019</u>	<u>\$ 523,869</u>
OPERATING EXPENSES:			
Salaries and wages	\$ 668,035	\$ 170,040	\$ 838,075
Contract services	32,423	499	32,922
Materials and supplies	550,206	1,493	551,699
Depreciation	55,899	-	55,899
Other operating expenses	15,154	92	15,246
TOTAL OPERATING EXPENSES	<u>1,321,717</u>	<u>172,124</u>	<u>1,493,841</u>
Operating Loss	\$ (909,867)	\$ (60,105)	\$ (969,972)
NON-OPERATING REVENUES (EXPENSES):			
Federal grants	\$ 841,347	\$ -	\$ 841,347
State On-behalf Payments	102,101	27,312	129,413
State grants	14,944	12,454	27,398
Donated commodities	53,258	-	53,258
Interest income	2,439		2,439
TOTAL NON-OPERATING REVENUES BEFORE TRANSFERS	<u>\$ 1,014,089</u>	<u>\$ 39,766</u>	<u>\$ 1,053,855</u>
Transfers In (Out)	(73,936)	20,339	(53,597)
Net income (loss)	<u>\$ 30,286</u>	<u>\$ -</u>	<u>\$ 30,286</u>
NET ASSETS, July 1, 2006	<u>1,493,951</u>	<u>-</u>	<u>1,493,951</u>
NET ASSETS, June 30, 2007	<u><u>\$ 1,524,237</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,524,237</u></u>

MONROE COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	FOOD SERVICE	DAY CARE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from:			
Lunchroom sales	\$ 402,796	\$ -	\$ 402,796
Other activities	9,054	112,019	121,073
Cash paid to/for:			
Employees	(565,934)	(142,728)	(708,662)
Supplies	(500,538)	(1,493)	(502,031)
Other activities	(47,577)	(591)	(48,168)
Net cash used by operating activities	\$ (702,199)	\$ (32,793)	\$ (734,992)
Cash flows from Non-Capital and Related Financing Activities			
Federal grants	\$ 800,335	\$ -	\$ 800,335
Transfers	(73,936)	20,339	(53,597)
State grants	14,944	12,454	27,398
Net Cash Provided by Non-Capital and Financing Activities	\$ 741,343	\$ 32,793	\$ 774,136
Cash Flows from Capital and Financing Activities			
Purchases of capital assets	(172,843)	-	(172,843)
Cash flows from Investing Activities			
Receipt of Interest Income	2,439	-	2,439
Net Increase (Decrease) in cash and cash equivalents	\$ (131,260)	\$ -	\$ (131,260)
Balances, beginning of year	146,196	-	146,196
Balances, end of year	\$ 14,936	\$ -	\$ 14,936
Reconciliation of operating loss to net cash used by operating activities			
Operating Loss	\$ (909,867)	\$ (60,105)	\$ (969,972)
Adjustments to reconcile operating income to net cash used by operating activities:			
Depreciation	\$ 55,899	\$ -	\$ 55,899
State on Behalf Payments	102,101	27,312	129,413
Donated commodities	53,258	-	53,258
Changes in assets and liabilities			
Inventory	(3,187)	-	(3,187)
Accounts payable	(403)	-	(403)
Net cash used by operating activities	\$ (702,199)	\$ (32,793)	\$ (734,992)
Schedule of non-cash transactions:			
Donated commodities received from federal government	\$ 54,559		

MONROE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2007

	AGENCY FUNDS	PRIVATE PURPOSE TRUST FUNDS
ASSETS		
Cash	\$ 272,098	\$ 23,040
Accounts Receivable	1,444	
TOTAL ASSETS	<u>\$ 273,542</u>	<u>\$ 23,040</u>
 LIABILITIES		
Liabilities:		
Accounts Payable	\$ 4,166	\$ -
Due to Student Groups	269,376	
TOTAL LIABILITIES	<u>\$ 273,542</u>	<u>\$ -</u>
 NET ASSETS HELD IN TRUST	<u>\$ -</u>	<u>\$ 23,040</u>

MONROE COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2007

	PRIVATE PURPOSE <u>TRUST FUNDS</u>
Additions	
Interest	\$ 1,815
Deductions	
Scholarships paid	<u>(1,000)</u>
Net Assets, July 1, 2006	<u>22,225</u>
Net Assets, June 30, 2007	<u><u>\$ 23,040</u></u>

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Monroe County Board of Education (Board), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Monroe County School District. The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Monroe County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board also include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing Board. Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Monroe County School District Finance Corporation – In July 1985, the Monroe County, Kentucky, Board of Education resolved to authorize the establishment of the Monroe County School District Finance Corporation (a non-profit, non-stock, public, and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The board members of the Monroe County Board of Education also comprise the Corporation's board of directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 41. This is a major fund of the District.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction. The Construction Fund is a major fund of the District.

(D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The Day Care Fund is used to account for day care activities provided by the School District.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. There was one private purpose trust fund in Monroe County for the fiscal year ended June 30, 2007.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds. In applying the use of resources, the District uses restricted resources before using unrestricted resources.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2007, to finance the General Fund operations were \$.411 per \$100 valuation for real property, \$.411 per \$100 valuation for business personal property and \$.562 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
General equipment	5-15 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2007 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases and, accumulated sick leave, that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for construction projects and SFCC escrow requirements.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals and day care fees provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE B - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2007, none of the District's bank balance of \$3,479,803 was exposed to custodial credit risk.

NOTE D - LONG-TERM OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the Board's future obligations to make lease payments relating to the bonds issued by the Monroe County School District Finance Corporation (1987, 1994, 1998, refunding 1997, of 1998, 2001, 2003, 2004 and 2005 issues and 2006 issues).

The original amount of each issue, the issue date, and interest rates are summarized below:

1987	\$ 525,000	5.00 – 6.5%
1994	275,000	3.75 – 6.0%
1998	1,250,000	3.5 - 4.3%
1997	4,595,000	3.75 - 4.80%
1998	3,440,000	4.2 - 4.5%
2001	3,225,000	4.0 - 5.0%
2003	2,780,000	2.0 – 4.5%
2004	5,390,000	2.9 – 4.4%
2004 E	1,745,000	2.4 - 4.3%
2005	1,345,000	3.0 - 4.2%
2005 B	5,100,000	3.5 - 4.2%
2006	620,000	3.5 - 4.0%

The District, through the General Fund, (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Monroe County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The following table sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE D – LONG-TERM OBLIGATIONS CONTINUED

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2007 for debt service (principal and interest) are as follows:

	Monroe County Board of Education			Kentucky School Facilities Construction Commission			Requirements
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>For Year Total</u>
2007-8	\$ 705,061	776,291	1,481,352	504,939	158,351	663,290	2,144,642
2008-9	738,896	748,858	1,487,754	526,104	136,664	662,768	2,150,522
2009-10	767,425	720,433	1,487,858	572,575	113,185	685,760	2,173,618
2010-11	795,764	693,600	1,489,364	234,236	96,174	330,410	1,819,774
2011-12	832,124	661,089	1,493,213	182,876	86,528	269,404	1,762,617
2012-17	4,732,582	2,808,335	7,540,917	977,418	313,978	1,291,396	8,832,313
2017-22	5,905,469	1,749,582	7,655,051	759,531	116,756	876,287	8,531,338
2022-26	<u>4,768,849</u>	<u>447,140</u>	<u>5,215,989</u>	<u>176,151</u>	<u>8,679</u>	<u>184,830</u>	<u>5,400,819</u>
Total	<u>\$19,246,170</u>	<u>\$ 8,605,328</u>	<u>\$27,851,498</u>	<u>\$ 3,933,830</u>	<u>\$ 1,030,315</u>	<u>\$ 4,964,145</u>	<u>\$32,815,643</u>

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Long-term liability for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Revenue bonds payable	\$24,350,000	\$ -	\$ 1,170,000	\$ 23,180,000	\$ 1,210,000
Accrued sick leave	<u>307,720</u>	<u>44,796</u>	<u>34,231</u>	<u>318,285</u>	<u>64,257</u>
Governmental Activities:					
Long-term liabilities	<u>\$24,657,720</u>	<u>\$ 44,796</u>	<u>\$ 1,204,231</u>	<u>\$ 23,498,285</u>	<u>\$ 1,274,257</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying accrued sick leave.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE E – RETIREMENT PLANS

The Monroe County Public Schools contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

The Monroe County Public School District's total payroll for the year was \$11,593,191. The payroll for employees covered under KTRS was \$8,431,119. For the year ended June 30, 2007, the Commonwealth contributed \$981,017 to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2007 were \$123,881, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholding of 5% and a District contribution of 13.19% of the employee's total compensation subject to contribution. The District's contribution requirement for CERS for the year ended June 30, 2007 was \$540,044, which consisted of \$391,598 from the District and \$148,446 from the employees. The total covered payroll for CERS during the year was \$2,968,900. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report.

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on this financial statement.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE F - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE G - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

NOTE H - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE J – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007
Governmental Activities:				
Land	\$ 508,690	\$ -	\$ -	\$ 508,690
Land improvements	330,355	-	-	330,355
Buildings and building improvements	27,481,174	-	-	27,481,174
Technology equipment	1,228,279	322,238	(143,112)	1,407,405
Vehicles	1,860,235	90,895	-	1,951,130
General equipment	247,047	85,388	(56,582)	324,235
Construction in progress	2,623,703	4,393,178	-	7,016,881
Totals at Historical Cost	<u>\$34,279,483</u>	<u>\$ 4,891,699</u>	<u>\$ (151,312)</u>	<u>\$39,019,870</u>
Less Accumulated Depreciation For:				
Land improvements	\$ 243,377	\$ 11,871	\$ -	\$ 255,248
Buildings and building improvements	7,759,767	548,046	-	8,307,813
Technology equipment	873,888	167,542	(142,542)	898,888
Vehicles	1,213,621	129,485	-	1,343,106
General equipment	148,471	15,355	(2,682)	161,144
Total Accumulated Depreciation	<u>10,239,124</u>	<u>872,299</u>	<u>(145,224)</u>	<u>10,966,199</u>
Governmental Activities Capital Assets Net	<u>\$24,040,359</u>	<u>\$ 4,019,400</u>	<u>\$ (6,008)</u>	<u>\$28,053,671</u>
Business Type Activities:				
Buildings and building improvements	\$ 1,298,382	\$ -	\$ -	\$ 1,298,382
Technology equipment	26,992	6,145	(4,035)	29,102
Vehicles	-	-	-	-
General equipment	489,255	166,698	-	655,953
Totals at Historical Cost	<u>\$ 1,814,629</u>	<u>\$ 172,843</u>	<u>\$ (4,035)</u>	<u>\$ 1,983,437</u>
Less Accumulated Depreciation For:				
Buildings and building improvements	\$ 214,985	\$ 25,967	\$ -	\$ 240,952
Technology equipment	21,672	2,659	(4,035)	20,296
Vehicles	-	-	-	-
General equipment	293,903	27,273	-	321,176
Total Accumulated Depreciation	<u>\$ 530,560</u>	<u>\$ 55,899</u>	<u>\$ (4,035)</u>	<u>\$ 582,424</u>
Business Type Activities Capital Assets Net	<u>\$ 1,284,069</u>	<u>\$ 116,944</u>	<u>\$ -</u>	<u>\$ 1,401,013</u>

DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instruction	\$ 695,105
Student support services	5,180
Staff support services	4,562
District administration	4,222
School administration	10,324
Business support services	8,368
Plant operation & maintenance	23,375
Student transportation	120,860
Community service operation	303
Total	<u>\$ 872,299</u>

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE K – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance or net assets. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Construction	4,499,148
FSPK	17,401

NOTE L - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE M – BUDGETARY COMPARISONS

Actual figures for the general fund, food service and day care include on-behalf payments of \$3.4 million which were assigned to the District's expenditures after the budget was prepared. Revenue from the state was raised by the same amount with no impact on fund equity.

NOTE N - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Debt Service	General	Debt Service	Lease Payments	\$ 110,411
Debt Service	General	Debt Service	Debt Service	131,585
Operating	General	Special Revenue	Operating	20,000
Operating	General	Day Care	Operating	20,339
Operating	Construction	General	Operating	63,005
Debt Service	FSPK	Debt Service	Debt Service	1,307,333
Sub-total				\$1,652,673
Operating	Food Service	Construction	Operating	53,597
Total				<u>\$1,706,270</u>

NOTE O – CAPITAL LEASES

The following is a schedule by year of the future minimum lease payments under capital lease (primarily buses and copier machines) together with the present value of the new minimum lease payments as of June 30, 2007.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

NOTE O – CAPITAL LEASES CONTINUED

	Capital Lease Payable
2008	130,974
2009	120,729
2010	103,253
2011	100,943
2013-2016	<u>284,463</u>
Total Minimum Lease Payment	\$ 740,362
Less: Amount Representing Interest	<u>(93,748)</u>
Net Value of Minimum Lease Payment	\$ <u>646,614</u>

The net book value of the capital lease assets as of June 30, 2007 is \$536,911.

NOTE P – INTERFUND RECEIVABLE AND PAYABLES

There were no interfund receivables and payables at June 30, 2007.

NOTE Q – ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

The government-wide financial statements include \$3,353,216 of on-behalf payments and fringe benefits paid by the state. \$358,047 is for vocational education, \$2,014,152 is for health insurance, and \$981,017 is for pension benefits.

REQUIRED SUPPLEMENTARY INFORMATION

MONROE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES- BUDGET AND ACTUAL
GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2007

	BUDGETED AMOUNTS		ACTUAL	Variance With Final Budget Favorable (Unfavorable)
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Taxes:				
Property	\$ 1,134,906	\$ 823,386	\$ 951,985	\$ 128,599
Motor vehicle	287,906	287,906	336,030	48,124
Utilities	630,000	630,000	748,936	118,936
Earnings on investments	155,000	100,000	267,786	167,786
Other local revenues	5,500	5,500	39,869	34,369
Intergovernmental - state	8,356,688	3,624,700	11,873,638	3,248,938
Intergovernmental - direct federal	30,000	37,000	39,581	2,581
TOTAL REVENUES	\$ 10,600,000	\$ 10,508,492	\$ 14,257,825	\$ 3,749,333
EXPENDITURES:				
Current:				
Instruction	\$ 6,261,435	\$ 5,926,136	\$ 8,321,343	\$ (2,395,207)
Support Services:				
Student	408,135	398,602	491,616	(93,014)
Instructional staff	413,113	425,007	502,913	(77,906)
District administration	448,393	388,413	427,009	(38,596)
School administration	962,218	970,426	1,159,386	(188,960)
Business	280,992	519,977	253,948	266,029
Plant operations and maintenance	1,881,539	1,757,325	1,819,697	(62,372)
Student transportation	811,273	855,807	916,095	(60,288)
Community service activities	12,893	12,893	15,985	(3,092)
Contingency	269,963	269,963	-	269,963
TOTAL EXPENDITURES	\$ 11,749,954	\$ 11,524,549	\$ 13,907,992	\$ (2,383,443)
Excess (deficit) of revenues over expenditures	\$ (1,149,954)	\$ (1,016,057)	\$ 349,833	\$ 1,365,890
OTHER FINANCING SOURCES (USES):				
Bonds proceeds	\$ -	\$ -	\$ -	-
Operating transfers in	-	-	63,005	63,005
Operating transfers out	-	-	(282,335)	(282,335)
TOTAL OTHER FINANCING SOURCES (USES)	\$ -	\$ -	\$ (219,330)	\$ (219,330)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	\$ (1,149,954)	\$ (1,016,057)	\$ 130,503	\$ 1,146,560
FUND BALANCES, July 1, 2006	1,580,186	1,580,186	1,580,186	-
FUND BALANCES, June 30, 2007	\$ 430,232	\$ 564,129	\$ 1,710,689	\$ 1,146,560

MONROE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES- BUDGET AND ACTUAL
SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2007

	BUDGETED AMOUNTS		ACTUAL	Variance With Final Budget Favorable (Unfavorable)
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Earnings on investments		\$ -	\$ 93	\$ 93
Other local revenues	13,341	13,949	23,171	9,222
Intergovernmental - state	1,150,127	913,976	1,348,616	434,640
Intergovernmental - indirect federal	1,699,417	2,177,655	2,153,639	(24,016)
TOTAL REVENUES	\$ 2,862,885	\$ 3,105,580	\$ 3,525,519	\$ 419,939
EXPENDITURES:				
Current:				
Instruction	\$ 2,006,560	\$ 2,105,715	\$ 2,468,168	\$ (362,453)
Support Services:				
Student	133,250	201,840	162,404	39,436
Instructional staff	506,966	667,933	630,603	37,330
Student transportation	34,355	38,292	45,452	(7,160)
Community service activities	111,800	111,800	238,892	(127,092)
TOTAL EXPENDITURES	\$ 2,792,931	\$ 3,125,580	\$ 3,545,519	\$ (419,939)
Excess (deficit) of revenues over expenditures	\$ 69,954	\$ (20,000)	\$ (20,000)	\$ -
OTHER FINANCING SOURCES (USES):				
Operating transfers in	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Operating transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	\$ 89,954	\$ -	\$ -	\$ -
FUND BALANCES, July 1, 2006	-	-	-	-
FUND BALANCES, June 30, 2007	\$ 89,954	\$ -	\$ -	\$ -

SUPPLEMENTARY INFORMATION

MONROE COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS

June 30, 2007

	FSPK FUND	SEEK CAPITAL OUTLAY FUND	DEBT SERVICE FUND	TOTAL NONMAJOR FUNDS
Assets				
Cash and cash equivalents	\$ 26,224	\$ 132	\$ -	\$ 26,356
Total assets	<u>\$ 26,224</u>	<u>\$ 132</u>	<u>\$ -</u>	<u>\$ 26,356</u>
Fund Balances				
Reserved for:				
SFCC Escrow	\$ 26,224	\$ 132	\$ -	\$ 26,356
Unreserved:				
Undesignated, reported in:				
Capital projects funds	-	-	-	-
Total fund balances	<u>\$ 26,224</u>	<u>\$ 132</u>	<u>\$ -</u>	<u>\$ 26,356</u>

MONROE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	FSPK FUND	SEEK CAPITAL OUTLAY FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:				
From local sources:				
Taxes:				
Property	\$ 486,122	\$ -	\$ -	\$ 486,122
Earnings on investments	-	-	18,690	18,690
Intergovernmental - state	803,810	184,890	711,441	1,700,141
TOTAL REVENUES	\$ 1,289,932	\$ 184,890	\$ 730,131	\$ 2,204,953
EXPENDITURES:				
Current:				
Debt service				
Principal	\$ -	\$ -	\$ 1,280,411	\$ 1,280,411
Interest	-	-	999,049	999,049
Plant Operations		184,890		184,890
TOTAL EXPENDITURES	\$ -	\$ 184,890	\$ 2,279,460	\$ 2,464,350
Excess (deficit) of revenues over expenditures	\$ 1,289,932	\$ -	\$ (1,549,329)	\$ (259,397)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	\$ -	\$ -	\$ 1,549,329	\$ 1,549,329
Operating transfers out	(1,307,333)	-		(1,307,333)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (1,307,333)	\$ -	\$ 1,549,329	\$ 241,996
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	\$ (17,401)	\$ -	\$ -	\$ (17,401)
FUND BALANCES, July 1, 2006	43,625	132	-	43,757
FUND BALANCES, June 30, 2007	\$ 26,224	\$ 132	\$ -	\$ 26,356

MONROE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
JUNE 30, 2007

	Monroe County High School	Monroe County Middle School	Thompkins- ville Elementary School	J.H. Carter Elementary School	Gamaliel Elementary School	Community Resource Center	Total
ASSETS							
Cash	\$ 102,477	\$ 63,024	\$ 27,748	\$ 36,784	\$ 39,052	\$ 3,013	\$ 272,098
Accounts Receivable	-	1,444	-	-	-	-	1,444
TOTAL ASSETS	<u>\$ 102,477</u>	<u>\$ 64,468</u>	<u>\$ 27,748</u>	<u>\$ 36,784</u>	<u>\$ 39,052</u>	<u>\$ 3,013</u>	<u>\$ 273,542</u>
LIABILITIES							
Liabilities:							
Accounts Payable	\$ -	\$ 664	\$ 150	\$ 3,352	\$ -	\$ -	\$ 4,166
Due to Student Groups	102,477	63,804	27,598	33,432	39,052	3,013	269,376
TOTAL LIABILITIES	<u>\$ 102,477</u>	<u>\$ 64,468</u>	<u>\$ 27,748</u>	<u>\$ 36,784</u>	<u>\$ 39,052</u>	<u>\$ 3,013</u>	<u>\$ 273,542</u>

HIGH SCHOOL

MONROE COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MONROE COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2007

NAME OF ACTIVITY:	CASH BALANCES	RECEIPTS	DISBURSEMENTS	CASH BALANCES	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	FUND BALANCES
	July 1, 2006			June 30, 2007	June 30, 2007	June 30, 2007	June 30, 2007
Academic Team	\$ 188	\$ 1,320	\$ 1,442	\$ 66	\$ -	\$ -	\$ 66
Academic Achiever		950	298	652			652
Annual staff	26,972	33,345	43,058	17,259	-	-	17,259
Art Club	-	855	714	141	-	-	141
Athletic	432	84,364	84,796	-	-	-	-
Boys Basketball	4,145	22,663	17,971	8,837	-	-	8,837
Baseball Account	1,648	13,691	15,338	1	-	-	1
Beta Club	894	5,946	6,395	445	-	-	445
Cheerleaders	1,684	3,301	4,084	901	-	-	901
Cola Account	49	7,719	5,457	2,311	-	-	2,311
Cross Country	237	790	414	613	-	-	613
Culinary Class	11	6,475	6,486	-	-	-	-
Entrepreneur Club	199	1,126	1,004	321	-	-	321
Football	962	27,148	28,106	4	-	-	4
FCA	331	1,536	1,281	586	-	-	586
FCCLA	134	17,678	17,659	153	-	-	153
FEA Club	1,008	165	391	782	-	-	782
FFA	1,486	15,055	14,538	2,003	-	-	2,003
FFA Greenhouse	12,880	7,444	5,972	14,352	-	-	14,352
FMD/CBI	682	-	-	682	-	-	682
Girls Basketball	218	14,599	14,817	-	-	-	-
General Fund	22,139	10,263	30,483	1,919	-	-	1,919
Golf	2,686	11,787	7,751	6,722	-	-	6,722
INT	51,200	7,621	33,039	25,782	-	-	25,782
Jr Beta Club	69	3,918	3,987	-	-	-	-
Library	101	-	64	37	-	-	37
Math Club	1,880	27	541	1,366	-	-	1,366
Media Club	-	1,553	1,468	85	-	-	85
Mini Grant	-	200	91	109	-	-	109
Music	-	5,232	5,232	-	-	-	-
Pep Club	113	1,508	1,102	519	-	-	519
Pop Music	26	-	-	26	-	-	26
Science	485	84	13	556	-	-	556
Snack Acct	-	182	-	182	-	-	182
Snack Cart	2,621	4,480	4,039	3,062	-	-	3,062
Soccer	-	6,081	3,637	2,444	-	-	2,444
Softball	-	9,092	6,110	2,982	-	-	2,982
Spanish Club	700	1,153	1,006	847	-	-	847
Seniors 2007	-	23,275	23,275	-	-	-	-
Seniors 2008	-	1,622	873	749	-	-	749
Seniors 2009	296	1,191	14	1,473	-	-	1,473
Seniors 2010	-	187	187	-	-	-	-
Student Tech	188	236	167	257	-	-	257
Tennis	387	700	638	449	-	-	449
Lounge-Coia	1,062	3,517	2,845	1,734	-	-	1,734
Lounge- Snack	129	37	-	166	-	-	166
Track	1,083	700	1,308	475	-	-	475
Volleyball	667	3,935	4,282	320	-	-	320
WEB	104	-	-	104	-	-	104
Yclub	257	3,620	3,874	3	-	-	3
TOTALS	<u>\$ 140,353</u>	<u>\$ 368,371</u>	<u>\$ 406,247</u>	<u>\$ 102,477</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,477</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MONROE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Part 1 of 2

FEDERAL GRANTOR/ PASS - THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES
U.S DEPARTMENT OF AGRICULTURE			
Passed through Statement Department of Education:			
Children Nutrition Cluster:			
School Breakfast Program	10.553 *	0576-01-05	247,959
National School Lunch Program	10.555 *	0575-00-02	507,290
Summer Food Service Program for Children	10.559 *	0574-01-23	52,450
Other U.S. Department of Agriculture Programs:			\$ 807,699
Passed through State Department of Agriculture:			
Food Donation	10.550	N/A	53,258
TOTAL U.S. DEPT. OF AGRICULTURE			\$ 860,957
U.S DEPARTMENT OF EDUCATION			
Passed through the state:			
Special Education Cluster:			
Special Education-Grants to States (IDEA, Part B)	84.027	3376	\$ 394,191
Special Education-Preschool Grants (IDEA Preschool)	84.173	3436	32,878
			\$ 427,069
Title I Grants to Local Educational Agencies	84.010 *	3106	\$ 85,886
Title I Grants to Local Educational Agencies	84.010 *	3107	523,408
Title I Grants to Local Educational Agencies-Dist. Improvement	84.010 *	3107D	70,605
Title I Grants to Local Educational Agencies-Parent Involvement	84.010 *	3107M	4,083
Title I Grants to Local Educational Agencies-Account Sch Improv.	84.010 *	3206	6,271
			\$ 690,253
Even Start-State Educational Agencies	84.213	3236	\$ 3,551
Even Start-State Educational Agencies	84.213	3237	73,856
			\$ 77,407
Migrant Education-State Grant Programs	84.011	3116	\$ 3,195
Migrant Education-State Grant Programs	84.011	3117	154,125
			\$ 157,320
Vocational Education-Basic Grants to States	84.048	3486A	\$ 509
Vocational Education-Basic Grants to States	84.048	3486	5,026
Vocational Education-Basic Grants to States	84.048	3487	8,327
			\$ 13,862
English Language Acquisition Grants	84.365	3456	\$ 4,991
English Language Acquisition Grants	84.365	3457	996
			\$ 5,987
Safe and Drug Free Schools and Communities-State Grants	84.186A	4066	\$ 4,621
Safe and Drug Free Schools and Communities-State Grants	84.186A	4067	7,465
			\$ 12,086
Technical Prep Education	84.243	3637	\$ 15,967
Literacy and School Library	84.364A	3227	\$ 94,723
Improving Teacher Quality State Grants	84.367	4016	\$ 777
Improving Teacher Quality State Grants	84.367	4017	146,835
			\$ 147,612
State Grants for Innovative Programs	84.298	3345V	\$ 3,938
State Grants for Innovative Programs	84.298	3346	285
State Grants for Innovative Programs	84.298	3347	3,553
			\$ 7,776
Rural Education	84.358	3507	54,747
Grants for State assessments and Related Activities	84.369	3977	\$ 824
SUB-TOTAL (CONTINUE ON NEXT PAGE)			\$ 3,014,759

MONROE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Part 2 of 2

<u>FEDERAL GRANTOR/ PASS - THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS- THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Education Technology State Grants	84.318X	4256	\$ 31
Education Technology State Grants	84.318X	4257	6,856
			<u>\$ 6,887</u>
21st Century Community Learning Centers	84.287	5505	\$ 71,650
21st Century Community Learning Centers	84.287	5505S	9,902
21st Century Community Learning Centers	84.287	5506S	739
21st Century Community Learning Centers	84.287	5507	96,279
21st Century Community Learning Centers	84.287	5506	243,967
			<u>\$ 422,537</u>
Passed through State Workforce Development Cabinet			
Adult Education-Adult Education Development	84.002	3656	\$ 130
Adult Education-Core Svc/family	84.002	3657	3,290
Adult Education-Core Svc/family	84.002	3737	4,510
Adult Education-Professional Staff Development	84.002	3737S	1,439
Adult Education-Gear Up Kentucky II	84.002	3796	1,374
Adult Education-Gear Up Kentucky II	84.002	3796G	2,989
Adult Education-Corrections	84.002	3806	13
Adult Education-Corrections	84.002	3807	5,000
			<u>18,745</u>
TOTAL U.S DEPARTMENT OF EDUCATION			\$ 2,153,802
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed through the state: Learn and Service America-School and Community Based Programs	94.004	6757	\$ 2,742
TOTAL CORPORATION FOR NAT'L AND COMMUNITY SERVICE			
U.S. DEPARTMENT OF LABOR			
Passed through the state: WIA Workforce Investment Act	17.255	5886	53
TOTAL U.S. DEPARTMENT OF LABOR			<u>\$ 53</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ 3,017,554</u>

* Denotes major federal program.

The accompanying notes are an integral part of this schedule.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Monroe County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2007, the District received commodities totaling \$53,258 for the fiscal year.

NOTE C – SUBRECIPIENTS

The District has no subrecipients for the fiscal year ended June 30, 2007.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MONROE COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified
that are not considered to be material
weaknesses? yes X none reported

Noncompliance material to financial
statements noted?

 yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified
that are not considered to be material
weakness(es)? yes X none reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133?

 yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.553-55-59
84.010

Children Nutrition Cluster
Title One Grants to local agencies

Dollar threshold used to distinguish
Between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee? X yes no

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

MONROE COUNTY SCHOOL DISTRICT

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2007**

NONE

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Members of the Board of Education
Monroe County School District
Tompkinsville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Monroe County School District as of and for the year ended June 30, 2007, which collectively comprise Monroe County School District's basic financial statements and have issued our report thereon dated September 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, and III of the *Independent Auditor's Contract*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Monroe County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

The material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Monroe County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Monroe County School District in a separate letter dated September 30, 2007.

This report is intended solely for the information and use of management, the members of the Monroe County School District, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
Louisville, Kentucky
September 30, 2007

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Education
Monroe County School District
Tompkinsville, Kentucky

Compliance

We have audited the compliance of the Monroe County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Monroe County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Monroe County School District's management. Our responsibility is to express an opinion on Monroe County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I, II and III of the *Independent Auditor's Contract*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Monroe County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Monroe County School District's compliance with those requirements.

In our opinion, Monroe County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Monroe County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Monroe County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A control deficiency in a Board's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Board's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the members of the Monroe County School District, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
Louisville, Kentucky
September 30, 2007

COMMUNICATION WITH DISTRICT BOARD

State Committee for School District Audits
Members of the Board of Education
Monroe County Board of Education
Tompkinsville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Monroe County School District as and for the year ended June 30, 2007, which collectively comprises the District's basic financial statements, as listed in the accompany table of contents, and have issued our report thereon dated September 30, 2007. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the *Independent Auditors' Contract*.

As stated in our engagement letter dated August 1, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note A to the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). The audit adjustments, in our judgment, do not indicate matters that could have a significant effect on the District's financial reporting process. In addition, management has made all adjustments proposed by us.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. There have been no disagreements during the course of our audit.

Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to contact us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management and is not intended and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
Louisville, Kentucky
September 30, 2007

COMMUNICATION OF INTERNAL CONTROL MATTERS

Members of the Board of Education
Monroe County School District
Tompkinsville, KY

In planning and performing our audit of the financial statements of Monroe County School District as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Monroe County School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.

Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted account principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

In addition, on page 54, we reported control deficiencies that are not significant deficiencies or material weaknesses.

This report is intended solely for the information and use of management, the members of the Monroe County School District, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
Louisville, Kentucky
September 30, 2007

COMMENTS

COMMENTS

Prior Audit Comments

None

Current Comments

1. Found three instances where the purchase order procedures were not followed by the Isamahiel Elementary School and the High School. These cases totaled \$18,697. There was evidence senior management was aware of the expenditures, however, awareness should not be substituted for compliance with the purchase order procedures.

Response from Monroe County

Management has reviewed the above comment and will make procedural changes to correct the problem and school administrators and program directors have been notified that all purchasing procedures are to be complied with.

